

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 H-02 L-03 NEA-10 SP-02 AID-05

EB-07 NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01

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USADB

FOR NAC AGENCIES

PASS TREASURY DEPT FOR BUSHNELL/ZINMAN

E.O. 11652: ADS, DECLAS. 3/31/76

TAGS: EAID, EFIN

SUBJECT: REVIEW OF BAN'S RESOURCE POSITION AND PROPOSAL FOR INCREASE
IN BANK'S CAPITAL STOCK

REF: (A) MANILA 15965; (B) TRSY 75-193; (C) MANILA 16640;
(D) TRSY 75-220; (E) TRSY 75-222

1. AT MEETING OF DEC 16 ADB BOARD OF DIRECTORS DISCUSSED
ADB DOCUMENT R111-75, REVIEW OF THE BANK'S RESOURCE POSITION
AND PROPOSAL FOR AN INCREASE IN THE BANK'S CAPITAL STOCK,
DATED 10 NOVEMBER. ADB PRESIDENT STATED AT BEGINNING
THAT PURPOSE WAS TO OBTAIN PRELIMINARY REACTIONS AND
COMMENTS OF DIRECTORS AND TO RESPOND TO QUESTIONS. AT
END OF DISCUSSION, ADB PRESIDENT SAID THAT A REVISED DOCUMENT
REFLECTING BOARD COMMENTS WOULD BE DISTRIBUTED IN EARLY
FEBRUARY. ADB PRESIDENT POINTED OUT THAT BOARD OF
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DIRECTORS WAS REQUESTED AT LAST ANNUAL MEETING TO REVIEW

BANK'S RESOURCES POSITION AND TO PRESENT FINDING AND RECOMMENDATIONS ON A FURTHER INCREASE IN BANK'S CAPITAL STOCK AS SOON AS POSSIBLE TO BOARD OF GOVERNORS. ADB PRESIDENT STATED THAT HE WOULD HOPE THAT THIS COULD BE DONE AT NEXT ANNUAL MEETING.

2. U.S. DIRECTOR MADE GENERAL COMMENTS ALONG LINE REFTEL 3. U.S. DIRECTOR USED BOARD CONCERN OVER DECLINING BANK INCOME PROJECTIONS TO ANNOUNCE U.S. UNILATERAL DECISION FOR EARLY ENCASHMENT OF DEMAND NOTES TO IMPROVE BANK INCOME, BUT DID NOT MENTION TIMING. U.S. DIRECTOR ALSO SAID THAT BANK INCOME MIGHT BE IMPROVED IF BANK COULD USE MORE NON-CONVERTIBLE CURRENCIES FOR TRAVEL AND ADMINISTRATIVE EXPENSES BY ENCASHING DEMAND NOTES TO REDUCE USE OF CONVERTIBLE CURRENCIES.

3. COMMENTS AND QUESTIONS BY DONOR COUNTRY DIRECTORS INDICATED SERIOUS RESERVATIONS ON PROPOSED SIZE, TIMING AND JUSTIFICATION OF CAPITAL INCREASE. FRENCH AND U.K. DIRECTORS SAID THAT THE AMOUNT OF CAPITAL INCREASE MAY BE OVERLY AMBITIOUS AND THAT TIMING MIGHT BE DELAYED ONE YEAR TO MID-1978 TO AVOID THE POSSIBILITY OF OVERLAPPING THE LAST CAPITAL INCREASE WITH PROPOSED INCREASE, SINCE THERE MAY BE ADDITIONAL EXTENSIONS OF LAST CAPITAL INCREASE. FURTHER DISCUSSIONS LED TO EXPLICIT STATEMENTS BY THESE TWO DIRECTORS THAT THE POSITIONS OF THEIR CONSTITUENT COUNTRIES WERE DEPENDENT ON INTENTIONS AND POSITIONS OF LARGER DONORS OF BANK. MOST OF DIRECTORS REPRESENTING DONOR COUNTRIES EXPRESSED NECESSITY FOR MORE INFORMATION AND JUSTIFICATION FOR BANK LENDING PROGRAM AND INDICATED CONCERN OVER DECLINE IN PROJECTED BANK INCOME. MANY DONOR DIRECTORS FELT THAT THE LENDING RATE MIGHT BE INCREASED TO IMPROVE BANK INCOME AND TO IMPROVE BANK'S ABILITY TO BORROW IN CAPITAL MARKETS. MOST DONOR DIRECTORS FELT THAT A 15 PERCENT PAID-IN PORTION WAS TOO HIGH AND SOME SUGGESTED 10 OR 12 PERCENT AS AN ALTERNATIVE.

4. SOME DONOR COUNTRIES' SPECIFIC COMMENTS WERE: JAPAN ACCEPTED PROPOSED REPLENISHMENT BUT WANTED LIMITED OFFICIAL USE

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MORE INFORMATION ON JUSTIFICATION OF BANK'S PROJECTED LENDING PROGRAM. FRANCE COULD MAKE NO COMMITMENT AT THIS TIME BUT COMMENTED THAT THERE MAY BE DIFFICULTIES WITH PROPOSED SCHEDULE OF ENCASHING DEMAND NOTES. SWITZERLAND THOUGHT THAT LENDING RATE IS LOW COMPARED TO EXPECTED BORROWING RATES AND THAT MORE INFORMATION WOULD BE NEEDED ON MEASURES TAKEN TO DETERMINE APPROPRIATE LIQUIDITY LEVEL AND RESERVE LOAN RATIO. BELGIUM THOUGHT

THAT BANK SHOULD LEND NON- CONVERTIBLE CURRENCIES BY ENCASHING DEMAND NOTES IN THESE CURRENCIES AMOUNTING TO \$224 MILLION EQUIVALENT TO APY FOR PURCHASES IN MEMBER DEVELOPING COUNTRIES AND TO REDUCE USE OF SCARCE CONVERTIBLE FOREIGN EXCHANGE. THIS WOULD REQUIRE REVIEW OF BANK POLICY REGARDING CURRENT LOCAL COST FINANCING. U.K. AND CANADA FELT THAT CAPITAL REPLENISHMENT MIGHT NOT BE NEEDED SO SOON IF THE 75 PERCENT RESERVE MARGIN ON CALLABLE CONVERTIBLE CAPITAL WERE TO BE RELAXED TO IMPROVE BANK ABILITY TO BORROW. THEY ALSO URGED LENDING RATE SHOULD BE INCREASED TO REDUCE NEGATIVE SPREAD VIS-A-VIS BORROWING RATE. U.K., GERMANY AND CANADA FELT THAT PROPOSED ENCHASMENT SCHEDULE WAS ACCEPTABLE. CANADA COULD NOT PROVIDE PAID-IN CAPITAL UNTIL APRIL 1978. CANADA WANTED MORE EXPLANATIONS FOR A 17 PERCENT PER ANNUM BUDGET INCREASE WHEN THE NUMBER OF PROJECT APPROVALS WERE TO INCREASE BY LESS THAN 10 PERCENT.

5. THE DEVELOPING MEMBER COUNTRY DIRECTORS ALL FAVORED A LARGER CAPITAL REPLENISHMENT ESPECIALLY THOSE REPRESENTING COUNTRIES ELIGIBLE TO BORROW ORDINARY CAPITAL RESOURCES. THE DIRECTORS FROM COUNTRIES BORROWING SPECIAL FUNDS WANTED TO BE ASSURED THAT PROPORTION BETWEEN SPECIAL FUND LENDING TO ORDINARY CAPITAL SHOULD AT LEAST NOT DECREASE. KOREAN AND INDONESIAN DIRECTORS STRONGLY URGED A MUCH LARGER CAPITAL INCREASE CITING GROWING REQUIREMENTS OF REGIONAL DEVELOPING COUNTRIES AND SUPPORTED FURTHER STUDY ON JUSTIFICATION OF LENDING PROGRAM. KOREAN AND INDOENESIAN DIRECTORS WERE CONCERNED THAT BANK'S SHARE OF MULTILATERAL LENDING INREGION WOULD SHARPLY DECREASE. INDONESIAN DIRECTOR ALSO STATED THAT PAID-IN CAPITAL LIMITED OFFICIAL USE

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SHOULD NOT BE REDUCED BECAUSE THIS WAS ONLY MANNER THAT DEVELOPING MEMBER COUNTRIES COULD CONTRIBUTE USABLE RESOURCES TO BANK.

6. PHILIPPINE DIRECTOR RAISED AN INTERESTING POINT IN SUPPORTING CAPITAL INCREASE BY REQUESTING THAT BANK CONSIDER CONTRIBUTIONS OF REAL ESTATE AND HOUSING ARRANGEMENTS AS PAYMENT FOR CAPITAL INCREASE. SULLIVAN

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